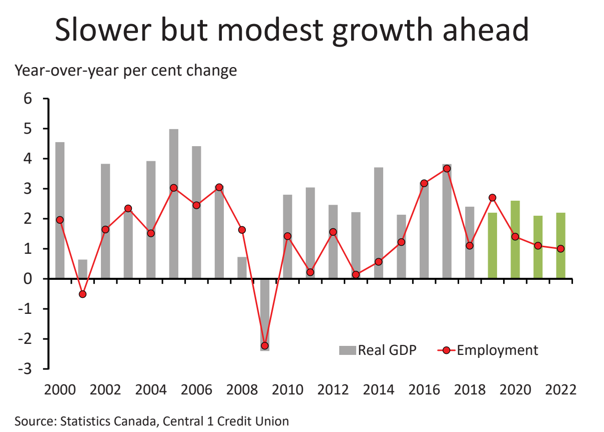
Economic Analysis of British Columbia

Volume 39 • Issue 3 | ISSN: 0834-3980

B.C. Economic Outlook 2019-2022

Highlights:

- Economic growth projected to trend modestly above two per cent through 2022
- Global trade uncertainty and weaker forestry sector a drag on 2019 growth
- Solid new home construction trends expected to stumble in 2020
- Consumer demand supported by tight labour market and rising population
- Major project construction remains a key economic driver



Global economic growth remains in a fragile state. Trade uncertainty continues to dominate headlines and are manifesting in weakening trade, growth expectations and investment. B.C.'s economy is treading modestly through this weaker backdrop, buoyed by a strong labour market, still robust construction cycle and promises of future major project construction; however, it is not immune to this deteriorating backdrop. Economic growth in B.C. is forecast to slow to 2.2 per cent this year from 2.4 per cent in 2018. Growth rebounds in 2020 to 2.6 per cent as major project construction picks up, before trending closer to 2.0 per cent thereafter. New home construction will be a drag on growth in future years, as recent resale market weakness leads to fewer apartment start going forward

Macro environment stalls

Global economic conditions have deteriorated over the past year as the U.S.–China trade and tariff war escalated and deepened global economic uncertainty. Adding to this are concerns around the impact of Brexit. Global trade is running below long-term trends while key bellwether indicators of growth—including manufacturing purchasing managers' indices—have declined to the lowest levels since 2012 as tariffs have taken a toll and caused capital investment to slow. The International Monetary Fund lowered its outlook for the economy a notch by 0.1 percentage points in its latest July outlook to a sluggish 3.2 per cent in 2019 and 3.5 per cent in 2020. Softer inflation has emerged with deterioration in the economy and has cut interest rate expectations, alongside the sluggish outlook.

While the U.S. economy has generally held firm and labour markets remain tight, loss of momentum and low inflation has the market expecting two rate cuts in the back half of 2019. In Canada, growth has disappointed and Gross Domestic Product (GDP) is forecast to expand by less than 1.5 per cent this year. While the Bank of Canada will try to push off following the U.S. Fed's rate cuts, Central 1 forecasts one cut during the first half of 2020, although two is possible.

Trade deterioration curtails economic growth in 2019

With this backdrop in mind, B.C. economic growth will remain modest and decelerate this year following a moderate gain in 2018. Real GDP growth slips to 2.2 per cent from 2.4 per cent marking the slowest pace since 2015. A compendium of factors including deterioration in the global trade environment, retrenchment in the forestry sector and slowing consumer spending on big ticket items will weigh on growth. In contrast, expansion in employment and population continue to support demand, while the province remains amid a strong building cycle in both the residential and non-residential sectors. Effects of the downdraft in the resale housing market on this year's growth are mixed as the residential building cycle lags the sales cycle.

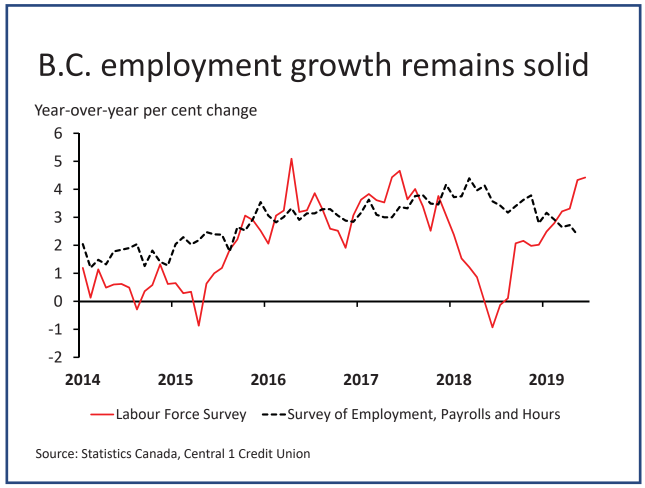
Labour market conditions have surprised to the upside this year, making up for weak headline employment growth in 2018. Both the household and payroll surveys of employment point to strong gains. The former rose more than four per cent year-over-year in early 2019 to make up for a poor showing in 2018 and has realigned with positive trends observed in payroll counts. Annual labour force employment growth is forecast to average 2.7 per cent. There aren't many holes to poke in the current labour market picture. Both full-time and part-time employers have contributed to the increase, while labour force participation rates are elevated suggesting the tight market is attracting people into the workforce while others delay their potential retirement. On an industry basis, employment growth is broad, with the exception being weakness in some resource sectors such as forestry.

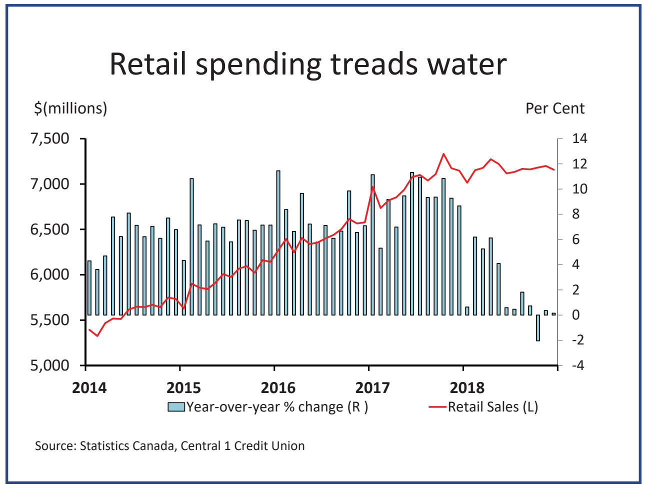
Employers continue to grapple with labour availability. B.C.'s unemployment rate is tracking 4.6 per cent marking near historic lows and similar to levels observed prior to the 2008/09 financial crisis period. Job vacancy rates continue to be the highest in the country at 4.4 per cent compared to 3.1 nationally in the first quarter and wage growth has gained traction in recent months.

Aggregate employee compensation, which reflects the combination of higher total employment, wages and salaries and other benefits, continues to grow at a robust pace in 2019. This is supportive of consumer demand. Compensation rose 4.5 per cent year-over-year in Q1, which exceeded the national gain of 3.4 per cent, and trailed only Nova Scotia and New Brunswick. B.C. had led the country in this metric in recent years.

Despite rosy hiring trends, consumer spending is shallow. Retail sales have barely risen, with gains through the first four months of 2019 up just over one per cent. Lower motor vehicle sales in Metro Vancouver and slowing of housing-related purchases have contributed to the dip. In contrast, general sales of goods have held up. Growth of five per cent in restaurant spending has slightly outpaced gains nationally, suggesting solid demand from current spending and tourism activity. Growth in real household consumption is forecast to slip from 3.0 per cent in 2018 to 1.9 per cent this year.

The housing cycle remains mixed. Homeownership demand, owing to federal mortgage stress tests and provincial government tax measures, has dragged the resale market into recession-like conditions since early 2018, with price levels adjusting lower accordingly. Metro Vancouver is at the centre of the market correction with sales trending at 2012 levels and price declines near ten per cent from peak.





At the same time, housing construction continues unabated. Current market conditions have chilled the pre-sale market, but housing starts posted a record second quarter of activity. Through mid-year 2019, provincial starts rose 16 per cent lifted by apartment gains. This surge speaks not to current conditions but strong pre-sale activity in previous years. Long development cycles mean that some projects are only now getting to the construction stage. Coupled with high levels of units under construction, residential investment spending on building rose five per cent in real terms through the first four months of the year. Starts are forecast to dry up. New housing is a lagging indicator of the market and a downshift is anticipated with the cooling of demand. Timing is uncertain particularly given the longer lead time for large, complex multi-family projects. A pull back in momentum in the second half of this year contributes to a four per cent annual decline in starts in 2019, with a decline of 15 per cent in 2020. Residential investment will be an increasing drag on the economy. Rental construction may pick up some of the slack.

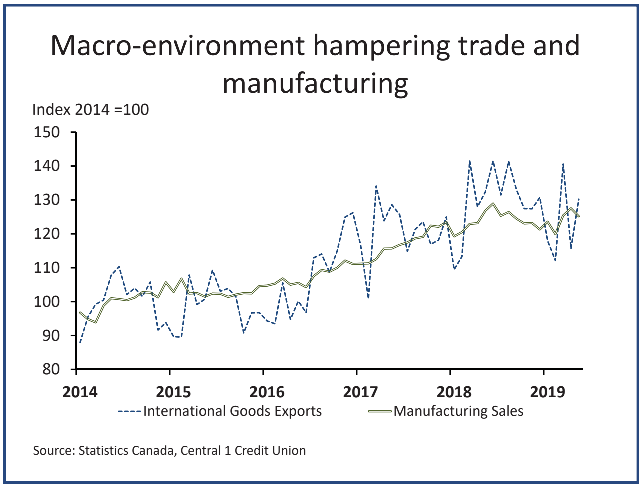
Other domestic drivers remain firm. Public sector spending is rising modestly on both federal and provincial spending activity and supports a growing population. Rising non-residential construction is also indicative of firm growth. Building permits rose more than 60 per cent through May, with strong gains across private and public sector intentions. Government investments in schools and hospitals have lifted activity, alongside major private sector initiatives including new office space in Vancouver. Adding to this is ongoing engineering work on major projects such as the Site C dam in the Peace region and the liquefied natural gas activity in the northwest.

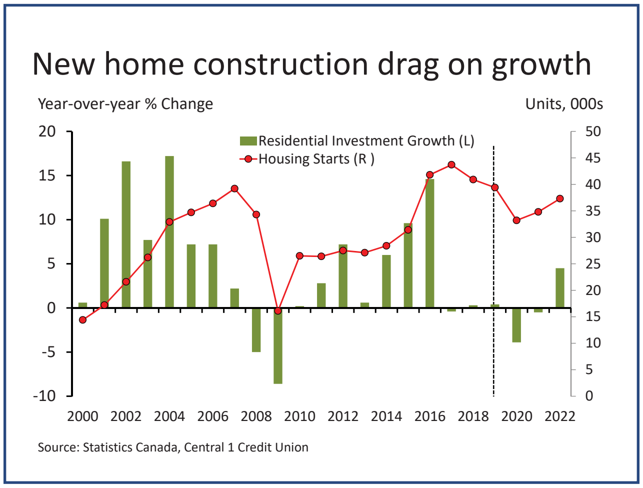
That said, not all is roses in the economy and B.C. is not immune to weaker economic momentum outside of its borders. Decelerating global economic growth and general weakness in commodity demand have stunted industrial production. Manufacturing growth has deteriorated on declines in metals production and the contraction in the forestry sector. Trade tensions between the U.S. and China continue to inhibit global trade and commodity prices, hampering demand for mining output. Meanwhile, the forestry sector has experienced sharp contractions since robust activity in early 2018. High lumber prices drove excess production which has since driven prices lower by 40 per cent. This is specifically impactful for B.C. producers given softwood lumber tariffs. A rising number of mills have closed due to current market conditions and lack of long-term timber supply marking a trend that will likely persist. Direct forestry harvesting activity and related manufacturing is forecast to contract by about seven per cent this year with flat conditions thereafter.

Outside of resource sectors, the low Canadian dollar continues to support manufacturing expansion. Moreover, tourism flows into B.C. are trending at a record high supporting services sectors and retail demand. Other service exports including TV and film, technology services and professional services continue to expand which is reflected in the tight labour market and hiring momentum.

Housing to weigh on growth in 2020 but offset by major project construction

Going forward, B.C.'s economy is expected to maintain modest momentum, albeit at a slower pace than recent years. GDP growth is forecast to reach 2.6 per cent in 2020, 2.1 per cent in 2021 and 2.2 per cent in 2022. B.C.'s growth pattern will reflect competing drivers of solid consumer demand and large scale capital investments in the economy, offset by delayed impacts of the recent housing slowdown and ongoing global trade uncertainty. Non-residential investment, while elevated, turns lower in 2021 and 2022 as the peak construction period on various major projects ends.





Household consumption is forecast to trend towards three per cent per year following this year's slowdown. A tight labour market, wage growth and population expansion will continue to support solid consumer spending. Spending on services will grow at a faster pace than spending on goods, reflecting constrained housing market conditions and elevated debt loads.

While the resale housing market sales cycle turns higher later this year, and price levels drift higher by mid-2020, its contribution to economic growth will be negative. With housing starts set to decline in response to the sluggish resale market, weak presale sell-through and projects under construction completing, real residential investment spending declines three per cent in 2020 after eking out a small increase in 2019 and holds flat through 2021. Renovation spending will grow following a decline in 2020 owing to rising resale market activity, and investments by owners into the aging housing stock.

Major capital projects will be key drivers of growth over the coming years. Build out of the LNG Canada liquefied natural gas facility in Kitimat and associated pipelines through to 2023, coupled with ongoing construction of the Site C dam and twinning of the Transmountain pipeline will highlight the rising investment cycle. Public works projects including the Patullo Bridge replacement, extension of the subway line in the Vancouver Broadway corridor will also lift construction. These projects drive strong gains in non-residential investment, particularly in engineering and building construction through to 2021 before declining in 2022. As the liquefied natural gas project moves closer to completion, natural gas production and to a lesser extent, natural gas exports, will pick up in 2022 onwards.

Export growth is forecast to trend at 1.5 per cent over the forecast period, while imports rise at a faster pace inputs are needed for major project construction. Export weakness reflects a period of disappointing global growth, slowdown in the U.S. and China's economies and trade uncertainty that is expected to linger through 2020. Growth in service exports is expected to outperform goods sales; however, the latter dominates total export activity. Weak export trends are an impediment to business investment in operations, but major project construction will more than offset some of this weakness. It should be noted that the external trade picture is hazy at best and is tied to the temperament of U.S. president Trump. Despite a recent deterioration, trade uncertainty could improve quickly if U.S.- China trade negotiations warm up.

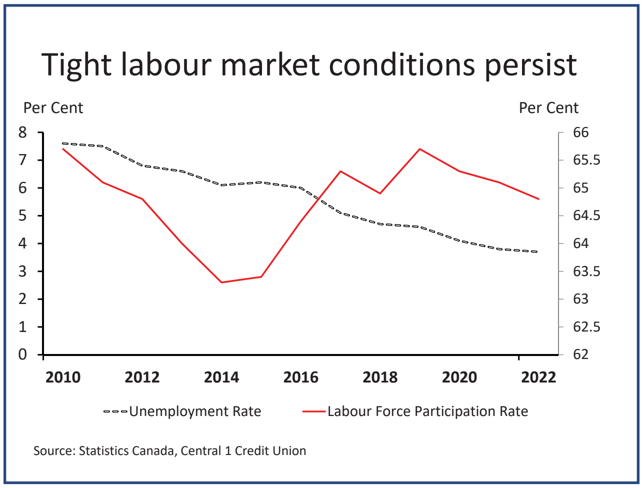
Employment to slow but tight conditions persist

Employment growth is forecast to slow from 2.7 per cent in 2019 to near one per cent through 2022. Weaker trends are expected in the goods sector, as manufacturing employment declines and construction employment holds flat. The latter is boosted by major project construction as residential sector hiring slows. Services sector employment continues to expand with gains in sectors associated with technology services, tourism and healthcare.

While an economic downdraft factors into the employment growth slowdown, labour shortages in some sectors will continue to hold back growth as labour force expansion is insufficient to meet hiring demand. The average unemployment rate is forecast to drift toward four per cent over the forecast period. Labour force participation rates decline from recent highs due to demographic factors and aging population. Employers will be faced with a rising wage environment, as hourly wage rates rise four per cent annually.

Population growth steady

B.C.'s population expands by 1.2 per cent this year and experiences a modest acceleration in 2020 to 1.3 per cent before easing thereafter. From 2019 through 2021, B.C. is forecast to grow by an average of nearly 60,000 persons annually providing a significant source of consumer and housing demand. International immigrants remain the primary source of population gains, reflecting in part higher federal intake targets, while the flow of non-permanent residents remains historically high with 23,000 persons this year and an average of 15,000 persons thereafter. These represent individuals on worker permits, students and humanitarian cases. Students also represent a source of permanent growth insofar as many decide to stay in the country.



Interprovincial migration is forecast to accelerate from a mild 3,400 persons in 2019 to more than 12,000 in 2020. This reflects migration due to relatively stronger economic conditions in B.C. compared to neighbouring Alberta and ongoing demand for workers on major projects.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209

B.C. Economic Outlook 2019-2022	2017	2018	2019	2020	2021	2022
GDP at market prices	6.9	5.4	3.7	4.9	4.1	4.9
Real GDP, expenditure-based	3.8	2.4	2.2	2.6	2.1	2.2
Household consumption	4.6	3	1.9	2.7	3	3.2
Government expenditure	3	1.3	1.8	1.6	1.5	1.4
Government capital formation	23.6	2.2	16	9.7	-2.1	-5.6
Business capital formation	7.5	-0.8	3.6	6.2	3.4	-1.5
Residential structures	-0.4	0.3	0.4	-3.9	-0.5	4.5
Machinery and equipment	-0.6	2.7	0.8	8.6	0.6	-0.3
Non-residential structures	29.7	-3.7	9.6	20.1	8.8	-9.7
Final domestic demand	5.3	2	2.7	3.4	2.6	1.7
Exports	3.4	3.5	0.9	1.2	1.3	3.4
Imports	8	3.1	2.5	3.3	2.8	1.3
Employment	3.7	1.1	2.7	1.4	1.1	1
Unemployment rate (%)	5.1	4.7	4.6	4.1	3.8	3.7
Personal income	6.6	5.1	5.4	4.5	4.4	4.7
Disposable income	7.3	5.3	5.2	4.5	4.3	4.6
Net operating surplus: Corporations	18.8	8.7	-8.4	3.4	-2.5	0.6
CPI	2.1	2.7	2.5	1.8	2	2.1
Retail sales	9.3	2.1	2.5	4.4	4.7	4.8
Housing starts, 000s	43.7	40.9	39.4	33.2	34.8	37.3
Population Growth (%)	1.3	1.4	1.2	1.3	1.2	1.1
Key External Forecasts						
U.S. Real GDP	2.2	3.0	2.2	1.6	1.5	2.0
Canada Real GDP	3.0	2.1	1.4	1.6	1.7	2.1
European Union Real GDP	2.5	1.5	1.2	1.4	1.5	1.6
China Real GDP	6.0	6.6	6.4	6.2	5.9	5.7
Japan Real GDP	1.9	0.8	0.6	0.5	0.6	0.9
Canada 3-month t-bill, %	0.71	1.37	1.65	1.45	1.50	1.50
Canada GoC long-term Bond, %	2.18	2.36	1.85	1.80	1.75	1.85
U.S.-Canada Exchange Rate, cents/dollar	77.05	77.20	76.20	75.70	75.60	75.90
Crude Oil WTI USD$ per barrel	50.9	65.0	60.0	58.0	60.0	63.0

Terms

Published by the Economics Department of Central 1 Credit Union, 1441 Creekside Drive, Vancouver, B.C. V6J 4S7

Economic Analysis of British Columbia (the “Analysis”) may have forward-looking statements about the future economic growth of the Province of British Columbia and its regions. These statements are subject to risk and uncertainty. Actual results may differ due to a variety of factors, including regulatory or legislative developments, competition, technological change, global capital market activity and general economic conditions in Canada, North America or internationally. This list is not exhaustive of the factors that may affect any of the Analysis’ forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Analysis’ forward-looking statements.

The Analysis and Central 1 Credit Union disclaims any and all warranties, whether express or implied, including (without limitation) any implied warranties of merchantability or fitness for a particular purpose. The Analysis and Central 1 Credit Union will not accept any responsibility for the reader’s use of the data and/or opinions presented in the Analysis, or any loss arising therefrom.

Chief Economist: **Helmut Pastrick** Deputy Chief Economist: **Bryan Yu** Senior Financial Economist: **David Hobden** Regional Economist, Ontario: Edgard **Navarrete**
Production: **Judy Wozencroft**